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BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting (Proposal Four)	))	Docket No. RM2016-12

REPLY COMMENTS OF
AMAZON FULFILLMENT SERVICES, INC.

(November 14, 2016)

Amazon Fulfillment Services, Inc. ("AFSI") respectfully submits its reply comments in this rulemaking pursuant to Order Nos. 3482 and 3586. These comments consist of this document and a support declaration by Dr. T. Scott Thompson, an econometrician who is a partner in the economic consulting firm of Bates White, LLC. The comments and declaration reply to several points advanced in the October 17 initial comments of United Parcel Service, Inc. ("UPS Comments"), and the supporting report of two consultants for UPS, Dr. Kevin Neels and Dr. Nicholas Powers ("Neels-Powers Report").

(1)

The Neels-Powers Report offers an extensive critique of the econometric analysis of the volume variability of purchased highway transportation costs performed by Professor Michael D. Bradley, which the Postal Service submitted to the Commission on August 22, 2016, in support of Proposal Four. Bradley, *Research on Estimating the Variability of Purchased Highway Transportation Capacity with Respect to Volume* ("Bradley Report"). The Neels-Powers Report is supported by a simulation model that the authors sponsor.

For the reasons explained by Dr. Thompson, both the Neels-Powers critique and the Neels-Powers simulation model are unsound and merit no weight because they are premised on unrealistic and irrational transportation networks. The Neels-Powers simulation model, for example, explicitly or implicitly assumes that:

1. The Postal Service can adjust route capacity only once a quarter; after that, route capacity is entirely fixed for 90 days.

2. The nature of the truck transportation industry gives the Postal Service no cost-effective way to respond to day-of-the-week variations in the volume of mail that needs transportation. For example, the Postal Service could not respond to even a predictable weekly volume peak on Wednesday by contracting for an additional route on Wednesday only, and contracting for fewer routes or smaller trucks the rest of the week.

3. The Postal Service cannot delay or re-route transportation of some mail with reduced service requirements to smooth capacity needs over a temporary peak.

4. The Postal Service cannot add or subtract trips on specific days (either within existing contracts or on an exceptional contracting basis) to deal with peaks or valleys in volume.

5. The Postal Service cannot move mail from one truck route to another (or to non-motor carrier transportation) in response to unanticipated peaks and valleys in volume.

6. The Postal Service cannot periodically reconfigure its highway network by creating new routes or delivery schedules to ensure the best match between available capacity and volume.

These assumptions are both counterintuitive and unsupported. Thompson Decl. The reliance on such assumptions by Neels and Powers undermines both their critique of the Bradley report and their alternative simulation model. *Id.*

(2)

On pages 3 and 9-11 of its initial comments, UPS suggests that all (or more) of the costs of Christmas routes should be attributed to competitive products. The Commission should decline to adopt such an adjustment. UPS offers no evidence that Christmas routes are caused entirely (or even disproportionately) by the volume of competitive products. The sole evidence offered by UPS for this hypothesis is a 2014 Postal Service press release announcing the launch of a marketing campaign for Christmas season package delivery. UPS Comments at 10 n. 34 (citing https://about.usps.com/news/national-releases/2014/pr14_057.htm); Neels-Powers Report at 19 n. 30. Since the purpose of the campaign was to market its package delivery products, the emphasis of the news release on competitive products is unsurprising. But the volume of many market dominant postal products also peaks during Quarter 1 (October-December) generally and the Christmas period specifically.

Furthermore, UPS and Neels-Powers assume that the peak in package deliveries during the Christmas period equates to a peak in the volume of packages transported by the Postal Service on *purchased highway transportation*. *Id.* This assumption is also unsupported. As AFSI has explained in previous comments to the Commission, Amazon has invested in its own sortation and distribution network to inject parcels into the Postal Service at Destination Delivery Units ("DDUs"), bypassing the Postal Service's highway transportation network. See Comments of AFSI in Docket No. RM2015-7 (July 8, 2015) at 4-6; Comments of AFSI in Docket No. RM2016-2 (January 25, 2016) at 5-6. Other large commercial shippers of packages engage in DDU entry as well. Hence, contrary to UPS's assumption, a large portion of the e-commerce packages that drive competitive volume growth during the holidays avoid Postal Service purchased highway transportation entirely.

Finally, UPS, in making this argument, again understates the share of total Postal Service costs that are covered by competitive products by assuming that they pay for only 5.5 percent of institutional costs. UPS Comments at 10 n. 35. The 5.5 percent threshold is the *minimum* share of total institutional costs that the Commission requires competitive products to pay under 39 U.S.C. §§ 3633(a)(3). The actual contribution of competitive products is much higher and rapidly growing. *See* Comments of AFSI in Docket No. RM2016-2 (January 25, 2016) at 25; PRC Annual Compliance Determination Report for FY 2015 (March 28, 2016) at 92-93 (finding that competitive products covered 13.3 percent of the Postal Service's total institutional costs in Fiscal Year 2015).

Respectfully submitted,

/s/

David M. Levy
Robert P. Davis
VENABLE LLP
575 7th Street NW
Washington DC 20005
(202) 344-4732
dlevy@venable.com

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